

Canadian Member Firm of  
Grant Thornton International

Doane Raymond 

**Mac-Mel Financial  
Corporation Inc.  
Consolidated  
Financial Statements**  
June 30, 1995



Chartered Accountants  
Canadian Member Firm of  
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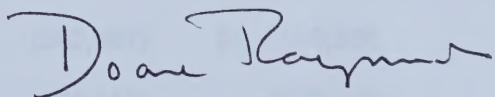
## Auditors' Report

To the Shareholders of  
Mac-Mel Financial Corporation Inc.

We have audited the consolidated balance sheets of Mac-Mel Financial Corporation Inc. as at June 30, 1995 and 1994 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1995 and 1994 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Edmonton, Canada  
September 18, 1995

Chartered Accountants



**Mac-Mel Financial Corporation Inc.**  
**Consolidated Statements of Loss and Deficit**

Years Ended June 30

1995

1994

Real estate management revenue	\$ 1,208,812	\$ -
Real estate management expenses		
Wages and benefits	730,864	-
Rent	42,829	-
Other	274,496	-
	<u>1,048,189</u>	<u>-</u>
	160,623	-
Other income		
Investment income	14,573	21,453
Net gain on disposal of investments	33,249	85,907
	<u>208,445</u>	<u>107,360</u>
Other expenses		
Writtenown of investments	26,189	590,121
Amortization of goodwill and deferred charges	74,899	-
Interest on notes payable (Note 10)	43,000	-
Consulting fees	16,000	14,000
Depreciation	16,290	873
Professional fees	60,455	18,371
Other	16,586	22,416
	<u>253,419</u>	<u>645,781</u>
Loss before income taxes	(44,974)	(538,421)
Income taxes (recoverable) (Note 9)	<u>26,843</u>	<u>(15,128)</u>
Net loss (Note 16)	<u>\$ (71,817)</u>	<u>\$ (523,293)</u>
(Deficit) retained earnings, beginning of year	\$ (362,907)	\$ 160,386
Net loss	<u>(71,817)</u>	<u>(523,293)</u>
Deficit, end of year	<u>\$ (434,724)</u>	<u>\$ (362,907)</u>

See accompanying notes to the consolidated financial statements.



**Mac-Mel Financial Corporation Inc.**  
**Consolidated Balance Sheet**

June 30

1995

1994

**Assets**

Current

Cash	\$ 20,194	\$ 909
Receivables	132,475	37,066
Marketable securities (estimated market value \$49,000)	49,468	300
Deposits	-	125,000
Current portion of notes receivable (Note 3)	247,986	34,725
Prepays	9,004	550
	<u>459,127</u>	<u>198,550</u>
Notes receivable (Note 3)	-	247,986
Investments (Note 4)	60,003	408,672
Deferred charge (Note 5)	95,000	-
Equipment (Note 6)	53,863	5,673
Goodwill (Note 7)	1,172,680	-
	<u>\$ 1,840,673</u>	<u>\$ 860,881</u>

**Liabilities**

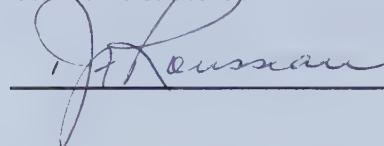
Current

Bank indebtedness (Note 8)	\$ 224,256	\$ -
Payables and accruals	94,940	3,291
Income taxes payable	14,403	-
Current portion of notes payable (Note 10)	368,000	-
	<u>701,599</u>	<u>3,291</u>
Notes payable (Note 10)	<u>203,385</u>	<u>-</u>
	<u>904,984</u>	<u>3,291</u>

**Shareholders' Equity**

Capital stock (Note 11)	1,370,413	1,220,497
Deficit	(434,724)	(362,907)
	<u>935,689</u>	<u>857,590</u>
	<u>\$ 1,840,673</u>	<u>\$ 860,881</u>

On behalf of the Board



Director



Director

See accompanying notes to the consolidated financial statements.

Doane Raymond 



**Mac-Mel Financial Corporation Inc.**  
**Consolidated Statement of Changes in Financial Position**

Years Ended June 30

1995

1994

Cash derived from (applied to)

**Operating**

Net loss	\$ (71,817)	\$ (523,293)
Depreciation	16,290	873
Amortization of goodwill and deferred charge	74,899	-
Gain on disposal of investments	(33,249)	(85,906)
Write down of investments	<u>26,189</u>	<u>582,599</u>
	<u>12,312</u>	<u>(25,727)</u>
Change in operating assets and liabilities (Note 14)	<u>2,189</u>	<u>(3,642)</u>
	<u>14,501</u>	<u>(29,369)</u>

**Financing**

Issue of notes payable	828,385	-
Repayment of notes payable, less imputed interest	(257,000)	-
Issue of shares	<u>149,916</u>	<u>132,441</u>
	<u>721,301</u>	<u>132,441</u>

**Investing**

Deposits refunded (paid)	125,000	(125,000)
Notes receivable	-	(165,395)
Proceeds from notes receivable	34,725	151,211
Purchase of investments	(6,745)	(145,000)
Proceeds from sale of investments and marketable securities	313,306	44,126
Purchase of equipment (Note 2)	(64,480)	(5,590)
Purchase of goodwill (Note 2)	(1,242,579)	-
Purchase of deferred charge	(100,000)	-
	<u>(940,773)</u>	<u>(245,648)</u>

Decrease in cash and term deposits (204,971) (142,576)

Cash and term deposits (bank indebtedness)

Beginning of year	<u>909</u>	<u>143,485</u>
End of year	<u>\$ (204,062)</u>	<u>\$ 909</u>

See accompanying notes to the consolidated financial statements.



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# **Mac-Mel Financial Corporation Inc.**

## **Notes to the Consolidated Financial Statements**

June 30, 1995

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### **1. Summary of significant accounting policies**

#### **Investments in companies**

These consolidated financial statements include the accounts of the company and its subsidiary. The results of operations of the subsidiary are included in the consolidated financial statements from the date of acquisition of control, after elimination of inter-company transactions and balances.

#### **Depreciation**

Rates and bases of depreciation applied to write-off the cost less estimated salvage value of equipment over their estimated lives are as follows:

Office equipment	10%, straight line
Computer hardware	20%, straight line
Industrial machines	20%, straight line

#### **Amortization of deferred charge**

Deferred charge is amortized by the straight line method over its estimated life of 5 years.

#### **Amortization of goodwill**

Goodwill is amortized by the straight line method over its estimated life of 15 years.

#### **Segmented information**

The dominant industry is real estate management. The company is currently in the process of disposing of its investment holding business which was its dominant industry in the prior year.

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### **2. Acquisition**

Effective August 31, 1994, the company acquired 100% of the shares of Berdean Management and Realty Ltd., for a purchase price of \$1,300,000 plus costs of \$66,676.

This acquisition was accounted for by the purchase method as summarized below and the results of operations were recorded from the effective date of the purchase.

The cost of the acquisition has been accounted for as follows:

Equipment	\$ 49,097
Goodwill	<u>1,242,579</u>
	1,291,676
Deferred interest cost on non-interest bearing notes payable	<u>75,000</u>
Purchase price plus costs	\$ 1,366,676



# Mac-Mel Financial Corporation Inc.

## Notes to the Consolidated Financial Statements

June 30, 1995

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### 2. Acquisition (cont'd)

Purchase consideration:

Cash	\$ 500,000
Note payable, non-interest bearing	<u>800,000</u>
Total purchase price	<u>\$ 1,300,000</u>

Under the terms of an agreement with the former shareholders of the acquired subsidiary, the company is required to pay additional amounts as a result of an earnout clause. The additional amounts are to be determined in subsequent years, based on the acquired subsidiary's gross revenues and earnings before income taxes for each of the years ended August 31, 1995, 1996 and 1997. Such amounts will be recorded in the years in which they can be determined.

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3. Notes receivable	<u>1995</u>	<u>1994</u>
Notes receivable are due from the following companies:		
604924 Saskatchewan Ltd. (Saskatoon, Saskatchewan) Prime + 2% loan receivable, repayable \$700 monthly including interest, secured by general security agreement.	\$ 40,501	\$ 44,157
Loan receivable, interest free, repayable \$1,000 monthly, secured by general security agreement.	<u>66,000</u>	<u>75,000</u>
	<u>106,501</u>	<u>119,157</u>
443654 B.C. Ltd. (New Westminister, B.C.) Prime + 2% loan receivable, repayable \$800 monthly including interest, secured by general security agreement.	41,757	46,237
Loan receivable, interest free, repayable \$1,000 monthly, secured by general security agreement.	<u>62,000</u>	<u>74,000</u>
	<u>103,757</u>	<u>120,237</u>
426743 B.C. Ltd. (Surrey, B.C.) 7% loan receivable, repayable \$700 monthly including interest.	<u>37,728</u>	<u>43,317</u>
	<u>247,986</u>	<u>282,711</u>
Less: current portion (Note 4)	<u>247,986</u>	<u>34,725</u>
	<u>\$ -</u>	<u>\$ 247,986</u>



# Mac-Mel Financial Corporation Inc.

## Notes to the Consolidated Financial Statements

June 30, 1995

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4. Investments	<u>1995</u>	<u>1994</u>
Investment in RTO Enterprises Ltd.	\$ -	\$ 112,480
Investment in Briana Bio-Tech Inc.	- -	210,000
Mortgage receivable	60,000	86,189
Investment in affiliated companies		
604924 Saskatchewan Ltd. (50% equity)	1	1
443654 B.C. Ltd. (60% equity)	1	1
Mineral rights	1	1
	<u>\$ 60,003</u>	<u>\$ 408,672</u>

The mortgage receivable is in default. It has a face value of \$86,189 of which \$26,189 has been provided as an allowance for loan loss. The allowance has been determined based on an appraisal of the underlying security.

Subsequent to year end the notes receivable, shares in 604934 Saskatchewan Ltd. and shares in 443654 B.C. Ltd. were exchanged for 106,383 shares in RTO Enterprises Inc. and a non-interest bearing note receivable of \$215,587, repayable \$17,965 monthly.

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5. Deferred charge	<u>1995</u>	<u>1994</u>
Cost of purchased contracts	\$ 100,000	\$ -
Less: accumulated amortization	<u>(5,000)</u>	<u>-</u>
	<u>\$ 95,000</u>	<u>\$ -</u>

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6. Equipment	Cost	Accumulated Depreciation	<u>1995</u>	<u>1994</u>
			Net Book Value	Net Book Value
Office equipment	\$ 91,451	\$ 73,280	\$ 18,171	\$ 2,082
Computer hardware	196,617	163,186	33,431	765
Industrial machine	<u>3,140</u>	<u>879</u>	<u>2,261</u>	<u>2,826</u>
	<u>\$ 291,208</u>	<u>\$ 237,345</u>	<u>\$ 53,863</u>	<u>\$ 5,673</u>

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### 7. Goodwill

Goodwill is the excess of cost of investment in subsidiary over the assigned value of net assets acquired.

	<u>1995</u>	<u>1994</u>
Cost	\$ 1,242,579	\$ -
Less: accumulated amortization	<u>69,899</u>	<u>-</u>
	<u>\$ 1,172,680</u>	<u>\$ -</u>



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**Mac-Mel Financial Corporation Inc.**  
**Notes to the Consolidated Financial Statements**  
June 30, 1995

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8. Bank indebtedness	<u>1995</u>	<u>1994</u>
Unpresented cheques less deposits	\$ 24,256	\$ -
Operating line of credit	<u>200,000</u>	<u>-</u>
	<u>\$ 224,256</u>	<u>\$ -</u>

The subsidiary has an operating line of credit of \$200,000 payable on demand at prime + 3%. As security the company has given a continuing guarantee for \$200,000, a general security agreement covering all present and acquired property, and a postponement and assignment of claims.

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9. Income taxes payable

- At June 30, 1995 the company has \$388,363 (1994 - \$22,408) of realized net capital losses available and \$9,027 (1994 - \$1,696) of unamortized share issue costs. The potential tax savings that may be realized by these losses in future years has not been recorded in these financial statements.
- The difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the income taxes actually provided for in the accounts is reconciled as follows:

	<u>1995</u>	<u>1994</u>
Loss before income taxes	<u>\$ (44,974)</u>	<u>\$ (538,421)</u>
Application of basic tax rates on loss	\$ (19,800)	\$ (238,520)
Increase (decrease) in taxes resulting from:		
Capital losses and write downs	-	223,392
Non-deductible amortization	21,987	-
Other items	<u>24,656</u>	<u>-</u>
Actual provision for income taxes (recovered)	<u>\$ 26,843</u>	<u>\$ (15,128)</u>



**Mac-Mel Financial Corporation Inc.**  
**Notes to the Consolidated Financial Statements**  
June 30, 1995

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10. Notes payable	<u>1995</u>	<u>1994</u>
Notes payable of \$500,000 to former shareholders of Berdean Management & Realty Ltd. are non-interest bearing, repayable \$100,000 quarterly and are secured by all present and acquired personal property of Berdean. Recorded at a discounted value based on 9% annual interest.	\$ 468,000	\$ -
Promissory note payable to a company controlled by a director at 10% compounded monthly from March 1, 1995 and repayable on July 31, 1996. (Note 15(b))	103,385 571,385 <u>368,000</u>	- - -
Less: current portion	<u>\$ 203,385</u>	<u>\$ -</u>

For the year ended June 30, 1995, interest expense of \$43,000 has been recorded which is the effective interest amount implicit in the above non-interest bearing notes.

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11. Capital stock	<u>1995</u>	<u>1994</u>
<b>Authorized:</b>		
50,000,000 non-voting preferred shares		
Unlimited number of common shares		
<b>Issued:</b>		
7,810,408 common shares	\$ 1,481,596	\$ 1,320,396
Issuance costs	<u>(111,183)</u>	<u>(99,899)</u>
	<u>\$ 1,370,413</u>	<u>\$ 1,220,497</u>

The rights, privileges, restrictions and conditions attached to the preferred shares may be determined by the Directors at time of issuance.

Share transactions during 1995 and 1994 were as follows:

	Number of shares		Amount	
	1995	1994	1995	1995
Shares issued for cash	1,007,500	586,000	\$ 161,200	\$ 125,600
Shares issued to settle unpaid services	-	27,360	-	6,841
	<u>1,007,500</u>	<u>613,360</u>	<u>\$ 161,200</u>	<u>\$ 132,441</u>

On May 6, 1995, the directors resolved to repurchase up to 400,000 of its issued and outstanding common shares for a maximum cost of \$80,000 in accordance with the policy statements of the Alberta Stock Exchange.



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# **Mac-Mel Financial Corporation Inc.**

## **Notes to the Consolidated Financial Statements**

June 30, 1995

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### **12. Stock options and warrants**

The company has reserved 300,000 common shares for its Directors and Management Stock Option Plan. Under this plan, the option holders may exercise their option to purchase the reserved common shares for a price of \$.2175 per share. The options expire on July 29, 1995.

The company has issued 1,007,500 warrants to purchase common shares at an exercise price of \$.25. The warrants expire on June 27, 1996.

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### **13. Trust assets and liabilities**

As at June 30, 1995, the company's subsidiary has trust assets and liabilities in the amount of \$1,795,469 which are being held for its clients and security deposits of \$1,094,471 which are being held for tenants of its managed properties. These assets and liabilities are not recorded in the consolidated financial statements and are governed by the Real Estate Agents' Licensing Act.

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<b>14. Change in operating assets and liabilities</b>	<b>1995</b>	<b>1994</b>
Prepays	\$ (8,454)	\$ -
Receivables	(95,409)	31,775
Accrued interest receivable	-	(8,477)
Payables and accruals	91,649	(10,294)
Income taxes payable	<u>14,403</u>	<u>(16,646)</u>
	<u>\$ 2,189</u>	<u>\$ (3,642)</u>

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### **15. Related party transactions**

During the year, the company had the following transactions with related parties:

- a) Incurred professional fees and consulting fees of \$75,441 (1994 - \$14,000) to directors and related parties. At June 30, 1995, \$16,000 of such fees is included in payables.
- b) Purchased property management and brokerage contracts from a company controlled by a director for a cost of \$100,000. The consideration given to acquire these contracts is a note payable of \$100,000 (Note 10).



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**Mac-Mel Financial Corporation Inc.**  
**Notes to the Consolidated Financial Statements**  
June 30, 1995

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16. Loss per share	<u>1995</u>	<u>1994</u>
Basic loss per share	<u>(\$.009)</u>	<u>(\$.079)</u>

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**17. Comparative figures**

Comparative figures for the year ended June 30, 1994 have been restated to conform to the current year's presentation.





Doane Raymond 